No. 10-290

IN THE

Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

141 LIMITED PARTNERSHIP AND INFRASTRUCTURES FOR INFORMATION INC.,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF TIMEX GROUP USA, INC., MACDERMID, INC., GEM MANUFACTURING, INC., PERFECT 10 ANTENNA COMPANY, INC., CARSON OPTICAL, INC. AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

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QUESTION PRESENTED

Whether a party disputing a patent's validity must prove invalidity by clear and convincing evidence.

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INTERESTS OF AMICI CURIAE[1]

Amicus curiae Timex Group USA, Inc. is the country's leading watch manufacturer and has a 150 year tradition of technological innovation. *Amicus curiae* MacDermid, Inc. has a nearly 90 year tradition of technological innovation in this country, and is now a leading worldwide manufacturer of specialty chemicals. For the last 60 years, *amicus curiae* Gem Manufacturing, Inc. has been manufacturing high quality deep drawn metal products, stampings and mechanical assemblies in the United States. For over three decades, *amicus curiae* Perfect 10 Antenna Company, Inc. has been a leading designer, manufacturer and supplier of high quality satellite television products in the United States. For over 20 years, *amicus curiae* Carson Optical, Inc. has been a leading supplier of high quality optical products in the United States.

As innovators in their respective fields with over 350 years of collective experience, *amici* agree that "ingenuity should receive a liberal encouragement." *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 8 (1966) (quoting Thomas Jefferson's letter to Oliver Evans). However, all too often, *amici*'s commercial activities generate allegations of infringement based on patents that have - at best - dubious validity. Frequently, the result is protracted and expensive litigation in a system that provides

1. Counsel of record for Petitioner and Respondent have filed blanket consents to the participation of *amicus curiae* with the Court. No counsel for a party in this matter authored this brief in whole or in part, and no party or counsel for a party in this matter made a monetary contribution intended to fund the preparation or submission of this brief. No person or entity, other than the *amici curiae*, their members, or their counsel made a monetary contribution to the preparation or submission of this brief.

unjustified protection to the validity of issued patents and, thus, unjustified encouragement to secure and attempt to enforce such patents. As innovators and free market entrepreneurs, *amici* have an interest in a balanced and fair patent system that rewards true innovation but otherwise preserves free market competition.

SUMMARY OF ARGUMENT

The Patent Act requires: "The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity." 35 U.S.C. § 282. Congress, however, was silent regarding the weight of that burden. The Federal Circuit has interpreted this statute as requiring a defendant to prove invalidity by clear and convincing evidence under all circumstances, including where, as in this case, the defendant's invalidity challenge is based on prior art that was not considered by the Patent Office. *See Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1359-60 (Fed. Cir. 1984).

The Federal Circuit's interpretation of § 282 is not correct. The Federal Circuit's interpretation was based on a misreading of this Court's precedent and an attendant confusion concerning the difference between a standard of proof on the one hand and standards of review and collateral deference on the other.

This Court should interpret § 282 to require a party challenging a patent's validity only to persuade the trier of fact with a preponderance of the evidence. In weighing the evidence, however, the trier should be entitled to grant deference, when and to the extent appropriate, to prior determinations of the Patent Office. In this way, the application of the Patent Act will better align a patent

applicant's interests with the Patent Office and ensure that the Patent Office is treated similarly to other federal administrative agencies under the APA.

Finally, the Federal Circuit's interpretation of § 282 raises serious constitutional concerns under the Due Process Clause. Patents are granted *ex parte* by examiners who have a direct, personal and substantial pecuniary interest in granting patents. The Federal Circuit's clear and convincing standard preserves (1) the *ex parte* nature of patent prosecution and (2) the pecuniary interests of patent examiners, and thereby impermissibly influences subsequent court adjudication. Under normal canons of statutory interpretation, such an interpretation of the statute should be rejected to avoid due process concerns.

ARGUMENT

I. THE FEDERAL CIRCUIT'S FOUNDATIONAL CASE ESTABLISHING THE CLEAR AND CONVINCING EVIDENCE STANDARD WAS WRONGLY DECIDED

A. Important Distinctions Must Be Drawn Between Burdens of Proof, Standards of Review, and Collateral Deference

Before examining where the Federal Circuit erred in *American Hoist*, certain distinctions must be established. There are six distinct issues that are at play: (i) standards of proof during trial, (ii) standards of court/court review on appeal, (iii) standards of court/agency review on appeal pursuant to the Administrative Procedures Act, (iv) court/court deference pursuant to *stare decisis*, (v) court/agency

deference under *Chevron*[2] and *Skidmore*,[3] and (vi) *res judicata*.

This Court addressed some of these distinctions in *Concrete Pipe & Products of California, Inc. v. Constr. Laborers Pension Trust for S. California*, 508 U.S. 602 (1993). In that case, the Court drew a sharp distinction between burdens of proof and standards of review. *Id.* at 620-623 (interpreting a statute requiring a showing "by a preponderance of the evidence that the determination was unreasonable or clearly erroneous"). The statute at issue combined burdens of proof with standards of review. *Id.* at 623. This combination resulted from the hybrid nature of the hearing in which the statute is applied; the reviewer was not simply a "reviewing body" giving another body "some degree of deference" but could also "receive new evidence in the course of his review and adopt his own conclusions of fact." *Id.*

In this way, the reviewer in *Concrete Pipe* is analogous to a district court in patent litigation. In adjudicating patent validity, the district court will often revisit the same determinations made by the PTO during examination, but it may also receive its own evidence of invalidity, does its own fact-finding, and draws its own legal conclusions. In *Concrete Pipe*, the Court found that it did not "make sense" to mix the language of trial burdens and the language of review in the same statute. *Id.* at 624. The Court found the statute's language "incoherent." *Id.* at 625. Since different standards cannot be coherently conflated, the

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2. *Chevron, U.S.A., Inc. v. Natural Res. Def. Council, Inc.*, 467 U.S. 837 (1984).

3. *Skidmore v. Swift & Co.*, 323 U.S. 134 (1944).

policies underlying them should not be conflated either, even in adjudications with a hybrid nature.

Another of this Court's precedents warns that older cases might confuse readers about which type of standard is at issue. "Before the APA, the use of [a] term to describe court/agency review proceeded by fits and starts." *Dickinson v. Zurko*, 527 U.S. 150, 157 (1999). The Court went on at length analyzing *Morgan v. Daniels*, 153 U.S. 120 (1894), to determine what standard was at issue. *See id.* at 158-160. This Court concluded that the *Morgan* court's "further explanations, when given, indicate that they had court/agency, not court/court review in mind." *Id.* at 160. Thus, it is important to closely examine older cases to determine the nature of the issue that they dealt with, and therefore, the scope of their holding.

The Federal Circuit's mistakes in *American Hoist* can be better understood with the lessons of *Concrete Pipe* and *Zurko* in mind.

B. The Federal Circuit Confused Standards of Review With Standards of Proof And Thereby Misinterpreted This Court's Precedent

The Federal Circuit improperly injected a rationale underlying a standard of review into its analysis interpreting § 282 in concluding that the standard of proof should be set at clear and convincing evidence. The Federal Circuit unequivocally states that "[b]ehind it all, of course was the basic proposition that a government agency such as the then Patent Office was presumed to do its job." *Am. Hoist & Derrick Co.*, 725 F.2d at 1359. Therefore, even from the start, the Federal Circuit's holding conflicts with *Concrete Pipe.*

The Federal Circuit justified its *American Hoist* opinion, in large part, on the basis of two of this Court's older precedents. The confusion between standards of proof and standards of review is evidenced by the facts of those cases. First, the Federal Circuit in *American Hoist* relied on *Radio Corp. of Am. v. Radio Eng'g Laboratories*, 293 U.S. 1, 8 (1934), for the proposition that the presumption of validity requires "more than a dubious preponderance" of the evidence as the standard of proof. *Am. Hoist & Derrick Co.*, 725 F.2d at 1359. However, *Radio Corp* dealt with the interaction of *res judicata* and *stare decisis*, not burdens of proof.

There, a third party, Armstrong, had previously litigated his priority to an invention in the District Court, Court of Appeals, and Supreme Court and lost, creating *res judicata* effects as between him and Radio Corp. *Radio Corp. of Am.*, 293 U.S. at 6-7. To evade these effects, Armstrong then funded Radio Engineering's lawsuit against Radio Corp., where they brought forth the same evidence and argument, "word for word" as Armstrong had in his losing case. *Id.* at 6.

This Court acknowledged that Radio Engineering was not bound by *res judicata* to the results of the Armstrong case. *Id.* at 7. The Court, nonetheless, delved into all of the considerations cited in *American Hoist* about Radio Engineering's burden in the present suit. *Id.* at 7-8. In the end, this Court held that "*[f]rom all this* it results that a stranger to a patent suit does not avoid altogether the consequences of a judgment rendered in his absence by establishing his privilege under the doctrine of res judicata to try the issues over again." *Id.* at 8 (emphasis added). Instead, "he may find that the *principle of adherence to*

precedent will bring him out at the end where he would be if he had been barred at the beginning." *Id.* (emphasis added). Thus, *Radio Corp* dealt with the principle of *stare decisis* (court/court deference).

All of Justice Cardozo's arguments leading up to this conclusion, including *American Hoist*'s favorite quotation to the "more than a dubious preponderance" language, should be read in light of Cardozo's *stare decisis* holding. Under *Zurko*, this Court should analyze the *Radio Corp.* decision carefully to determine the standard at which it is directed. The above analysis demonstrates that *Radio Corp.* was premised on *stare decisis* and is not relevant to standards of proof. As such, the Federal Circuit in *American Hoist* improperly relied upon *Radio Corp.* and failed to engage in a proper analysis of the appropriate standard of proof under § 282.

Second, the Federal Circuit in *American Hoist* relied on *Morgan v. Daniels*, 153 U.S. 120 (1894). *See Am. Hoist & Derrick Co.*, 725 F.2d at 1359. This Court, however, has specifically read *Morgan* "to stand for a court/agency [appellate] review standard, a standard weaker than the standard used by an appellate court in reviewing findings of fact made by the trial court" (i.e. court/court review on appeal). *Zurko*, 527 U.S. at 160 (internal quotations omitted). *Morgan* involved a *direct appeal* from the PTO to a Circuit Court after an interference proceeding; it did not involve an assertion of patent invalidity or the standard of proof attending the assertion of invalidity at trial. *See id.* at 158. The standard of review for a direct appeal from an *inter partes* proceeding at a federal administrative agency is non-analogous to the standard of proof in an independent trial on a patent's validity. Thus, the Federal

Circuit's reliance on *Morgan*, just as its reliance on *Radio Corp.*, confused different legal standards.

Furthermore, *Morgan* was implicitly overruled by this Court prior to the enactment of § 282 in 1952. This Court explicitly rejected a rule that appellate courts will not disturb a finding of invalidity in the absence of a "very obvious and exceptional showing of error." *Great Atl. & Pac. Tea Co. v. Supermarket Equip. Corp.*, 340 U.S. 147, 153-54 (1950). Justice Douglas in concurrence even believed that this rule "never had a place in patent law" because patent invalidity is a question that the courts must decide in light of the Constitution. *Id.* at 156. Thus, *Morgan* should have at least been in doubt in Congress when it enacted § 282 two years after *Great Atlantic & Pacific*.

The fallacy of the Federal Circuit's argument and reliance on *Morgan* and *Radio Corp.* is best observed through the manner by which it rejects a litigant's plea to set the standard of proof lower when the asserted prior art was not before the PTO. The court in *American Hoist* concluded that "there is no effect on the presumption or on who has the burden of proof . . . [or] the standard of proof" when "prior art or other evidence *not* considered in the PTO" is presented, while, in the same breath, the court admits that in such a situation, there is "*no reason to defer*" to the PTO at all. *Am. Hoist & Derrick Co.*, 725 F.2d at 1359-1360. The Federal Circuit has unfairly bootstrapped its holding by using deference to the PTO to justify its conclusion while failing to withdraw that conclusion when deference clearly does not apply.

The Federal Circuit has also set up a classic Catch-22. The court confuses the distinction between standards of

proof and deference in order to heighten the standard of proof, but then suddenly achieves lucidity in order to protect that heightened standard from legitimate attack. Deference to the PTO cannot be both relevant and irrelevant.

The best way to avoid confusion and incoherent standards of proof or deference is to separate the inquiries and create respective standards of proof and standards of deference. As in *Concrete Pipe*, it did not "make sense" for the Federal Circuit in *American Hoist* to mix the "language of trial" and the "language of review" in interpreting the statute. *Concrete Pipe & Products of California, Inc.*, 508 U.S. at 624. In *Concrete Pipe*, this Court found that the reviewer performed two distinct functions: (1) it took its own evidence, found facts, and drew its own legal conclusion and (2) it gave some degree of deference to the body that it was reviewing. *Id.* at 623. The Court held that it would only "make sense to describe his different functions *respectively* by the language of trial and the language of review." *Concrete Pipe & Products of California, Inc.*, 508 U.S. at 624 (emphasis added). Likewise, in a patent litigation, this Court should establish a standard that reflects the district court's respective functions of (i) performing a trial and (ii) deferring to the PTO's expertise where and when that is appropriate.

Thus, to harmonize this area of law, this Court should impose respectively (i) a uniform preponderance of the evidence burden of proof[4] coupled with (ii) a flexible

4. *Amici* will justify adopting this standard in the following section. The purpose of this section is merely to show that the Federal Circuit's clear and convincing standard is baseless and resulted from deep confusion and that the appropriate remedy is to bifurcate the two issues at play in patent litigation.

administrative deference standard. This is essentially the same procedure adopted by the Sixth Circuit before the creation of the Federal Circuit.

In *Dickstein v. Seventy Corp.*, the court held that "in the usual patent case . . . a preponderance of evidence is sufficient to establish invalidity." *Dickstein v. Seventy Corp.*, 522 F.2d 1294, 1297 (6th Cir. 1975). However, the court indicated that it would consider other factors that tend to "strengthen" patent validity (i.e. as countervailing substantive considerations), such as prior judicial proceedings, prior adjudications, interference proceedings, and "protracted proceedings and unusually careful scrutiny by the Patent Office." *Id.* at 1296. On the other hand, for Dickstein's patent, the Sixth Circuit also considered the Patent Office's "cursory" examination of the application, the lack of "substantive comments," and the fact that the defendant introduced prior art that was not before the PTO in weighing the evidence of the patent's validity. *Id.* at 1297. *Amici* believe that this is the appropriate flexible approach that satisfies the goals and objectives of the Patent Act and the Patent and Copyright Clause of the U.S. Constitution.

II. A DEFENDANT SHOULD BEAR THE BURDEN TO PROVE INVALIDITY WITH A PREPONDERANCE OF THE EVIDENCE BUT PART OF THE COUNTERVAILING EVIDENCE MAY INCLUDE DEFERENCE TO THE PTO

A. The Burden of Proof Must Be Preponderance of the Evidence

The recent patent jurisprudence of this Court unequivocally teaches that patent law is not special with respect to generally applicable legal principles. In *eBay*, this Court worried that the Federal Circuit had established a standard for injunctions "unique to patent disputes." *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393 (2006). This Court rejected that standard and held that the normal principles governing the issuance of injunctions "apply with equal force to disputes arising under the Patent Act." *Id.* at 391; *see also MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 132 n.11 (2007) (rejecting the Federal Circuit's unique "reasonable apprehension of suit test" as inconsistent with generally applicable interpretations of the Declaratory Judgment Act). Likewise, normal canons of statutory interpretation and generally applicable principles for allocation of the burden of proof must apply to § 282, and, as will be shown, these require a preponderance of the evidence standard.

First, combining this Court's precedents relating to standards of proof and this Court's precedents relating to the social costs of invalid patents logically requires the burden of proof to be a preponderance of the evidence. "[T]he choice of the standard for a particular variety of adjudication does, I think, reflect a very fundamental

assessment of the comparative social costs of erroneous factual determinations." *In re Winship*, 397 U.S. 358, 370 (1970) (Harlan, J. concurring). A "standard [of proof] serves to allocate the risk of error between litigants and to indicate the relative importance attached to the ultimate decision." *Addington v. Texas*, 441 U.S. 418, 423 (1979).

Justice Harlan also observed that "[a] patent, in the last analysis, simply represents a legal conclusion reached by the Patent Office" and there is a "strong federal policy favoring free competition in ideas that do not merit patent protection." *Lear, Inc. v. Adkins*, 395 U.S. 653, 656, 670 (1969). In addition to restricting competition, invalid patents can also "stifle, rather than promote, the progress of useful arts." *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 427 (2007). Indeed, "[i]t is *just as important* that a good patent be ultimately upheld as that a bad one be definitively stricken." *Blonder-Tongue Laboratories, Inc. v. Univ. of Illinois Found.*, 402 U.S. 313, 331 n.21 (1971) (quoting *Technograph Printed Circuits, Ltd. v. United States*, 372 F.2d 969, 977-78 (Ct. Cl. Feb. 17, 1967)) (emphasis added). Thus, in light of the *equally* competing social costs of stunted innovation and monopoly power, the risk of error between the litigants should be equal and set to a preponderance of the evidence.

Second, this application of *Winship* comports with ordinary canons of statutory interpretation. "[S]ilence is inconsistent with the view that Congress intended to require a special, heightened standard of proof." *Grogan v. Garner*, 498 U.S. 279, 286 (1991). *Grogan* dealt with the burden of proof for a claim under 11 U.S.C. § 523 that bankruptcy did not discharge a debtor from a particular debt. *Id.* at 280. This statute only enumerates

the types of debts that are not dischargeable; it does not purport to give any presumptions or dictate the locus of the burden of proof. *See* 11 U.S.C. § 523. If this sort of silence is inconsistent with intent to require a heightened standard of proof, then, *a fortiori*, the (i) elucidation of a presumption, (ii) allocation of the burden of proof, and then (iii) silence on the standard is inconsistent with a Congressional intent to require a heightened standard of proof.

With respect to § 282, this Court is assured that Congress at least considered the procedural aspects of proof; whereas, with § 523, Congress might not have even considered such issues. The inference would then be weaker with § 523 that Congress implicitly desired a non-heightened standard of proof. Thus, Congress's silence here speaks even louder than in *Grogan*.

Third, the preponderance of the evidence standard is the default burden of proof for civil litigation under Federal law.

> A "[c]onventional rule[] of civil litigation . . . is that parties to civil litigation need only prove their case by a preponderance of the evidence. . . . Exceptions to this standard are uncommon, and in fact are ordinarily recognized only when the government seeks to take unusual coercive action – action more dramatic than entering an award of money damages or other conventional relief – against an individual."

Price Waterhouse v. Hopkins, 490 U.S. 228, 253 (1989) (giving as examples the termination of parental

rights, involuntary commitment, deportation, and denaturalization). Indeed, this Court has held that despite the clear and convincing standard at common law for fraud, a § 10(b) suit under the securities laws need only be proven to a preponderance of the evidence. *See Herman & MacLean v. Huddleston*, 459 U.S. 375, 388-89 (1983); *see also id.* at 389-390 ("even severe civil sanctions that do not implicate [important individual] interests [have] been permitted after proof by a preponderance of evidence").

While patent invalidation may indeed be a severe civil sanction, it certainly does not compete in importance with civil commitment, deportation, or parental rights. As this Court has recognized the "patent monopoly was not designed to secure to the inventor his natural right in his discoveries." *Graham*, 383 U.S. at 9. Instead, the U.S. Patent system is premised upon a social and economic rationale – not a natural rights theory. *Id.* Thus, declaring a patent invalid does not constitute "unusual coercive action" by the government against an individual. Instead, declaration of a patent as invalid merely represents one form of "conventional relief" historically granted by courts in this country. Accordingly, the burden of proof under § 282 should not be special or extraordinary, but instead should be the default standard of a preponderance of the evidence.

Moreover, in order to override this default rule, this Court would need to hold that the law *prefers* patentees to competitors, which is a holding that directly conflicts with this Court's precedents. "Any other standard [besides preponderance of the evidence] expresses a preference for one side's interests." *Herman & MacLean*, 459 U.S.

at 390.[5] However, the Patent and Copyright Clause is "both a grant of power and a limitation" that reflects the "underlying policy of the patent system that the things which are worth to the public the *embarrassment* of an exclusive patent . . . must *outweigh* the restrictive effect of the limited patent monopoly." *Graham*, 383 U.S. at 5, 10-11 (emphasis added) (internal quotations omitted). An infringer to a legitimate patent, while undesirable, is not any less condemnable than a "class of speculative schemers who make it their business to watch the advancing wave of improvement, and gather its foam in the form of patented monopolies, which enable them to lay a heavy tax upon the industry of the country, without contributing anything to the real advancement of the arts." *Great Atl. & Pac. Tea Co.*, 340 U.S. at 155. This Court cannot hold that our legal system has a preference for patentees over competitors. Therefore, it cannot preserve the clear and convincing standard.

Fourth, at the very least, the canon of statutory interpretation that the burden of proof should rest with the party more likely to have knowledge of relevant information weighs against heightening the standard of proof for a defendant. *See Concrete Pipe & Products of California, Inc.*, 508 U.S. at 626. Even in property cases,

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5. This Court's rule in *Herman* is a clear corollary to Blackstone's famous maxim that it is "[b]etter that ten guilty persons escape, than one innocent suffer." *See* Alexander Volokh, *N Guilty Men*, 146 U. Pa. L. Rev. 173, 174 (1997). While there can be some argument as to the precise quantitative preference under the clear and convincing standard, this Court would need to hold that it is better that five (or so) legitimate competitors suffer than one innovator lose his monopoly.

it is well-established law that, generally, the burden of proof should fall on the party with peculiar knowledge and control of evidence. *See, e.g., Greenleaf's Lessee v. Birth*, 31 U.S. 302, 312 (1832) (Story, J.) (regarding the validity of a title to a plot of land). Patentees are clearly highly likely to have relevant evidence of invalidity. First, patentees generally have a better understanding of their own inventions. Second, many of the statutory bars to patentability involve the patentee's own actions and thoughts, such as the date of invention, public use, sales,[6] abandonment, derivation, and suppression. *See* 35 U.S.C. § 102(b), (c), (d), (f), (g). Furthermore, patentees are probably the *only* entity that knows whether they "set forth the best mode contemplated by the inventor of carrying out his invention." *See* 35 U.S.C. § 112 ¶ 1. Thus, at least to ensure that patentees cannot hide evidence behind a heightened standard of proof, this canon of interpretation weighs in favor of a preponderance of the evidence.

For all of these reasons, this Court should rule that Congress did not intend and the Constitution does not permit the enforcement of a patent that is proven invalid under a preponderance standard, i.e. the better or weightier evidence demonstrates that the patent is more likely than not invalid.

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6. In fact, Microsoft's invalidity argument in this case involved an on sale bar using i4i's own sales. *See* Microsoft's Petition for Certiorari at 6.

B. The Federal Circuit Has Established Doctrine Regarding The Standard for Administrative Deference That Should Be Preserved as Consistent With This Court's Holding in *United States v. Mead*

1. Federal Circuit Precedent, While Incorrect in Setting the Burden of Proof, Properly Provides For Administrative Deference To PTO Determinations In the Form of Evidentiary Weight

The Federal Circuit instructs district courts to defer to the PTO's expertise as "a question of evidentiary weight" by "add[ing] an additional deference-thumb to the [clear and convincing] scale." *See Tech. Licensing Corp. v. Videotek, Inc.*, 545 F.3d 1316, 1331 (Fed. Cir. 2008). Courts provide a spectrum of deference depending on the quantity and quality of the PTO's deliberations on validity issues. Higher deference, for example, is accorded to the results of *inter partes* interference proceedings. *PowerOasis, Inc. v. T-Mobile USA, Inc.*, 522 F.3d 1299, 1304 (Fed. Cir. 2008). Further, prior art that was before the PTO is afforded more deference than prior art that was not brought to the attention of the examiner, where no deference is reasonably required.[7] *PowerOasis, Inc.*, 522 F.3d at 1304.

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7. This would probably also include scenarios as in the present case where the patent's invalidity is alleged to arise from the patentee's sales one year prior to filing a patent application. *See* Microsoft's Petition for Certiorari at 6. Unless the examiner has personal knowledge of the sales or the applicant admits making the sales, the PTO performs no investigation into this mode of patent invalidity. *See* Manual of Patent Examination Procedure § 706.02(c) (8th Ed., Rev. 8, 2010).

More deference still is accorded to validity determinations using prior art explicitly considered in office actions and decisions of the Board of Patent Appeals and Interferences than prior art that was simply listed on data sheets. *Tech. Licensing Corp.*, 545 F.3d at 1330. Courts even consider the intricacies of internal PTO procedures, including instances where applicants' assertions are taken at face value by the examiner. *PowerOasis, Inc.*, 522 F.3d at 1305; *see also* Brief for Yahoo!, Inc. as *Amicus Curiae* Supporting Petitioner's Petition for Certiorari at 16-22 (discussing various validity issues for which the PTO performs little or no examination).

This deference is what originally motivated the Federal Circuit's clear and convincing standard, *see Am. Hoist & Derrick Co.*, 725 F.2d at 1359, but, as explained above, this motivation should only be directed to an appropriate standard of administrative deference. The PTO's determinations should be considered for what they are worth as an evidentiary thumb on the preponderance of the evidence scale. It would be "incoherent" if PTO determinations forced an alleged infringer to face an entirely different and more unfriendly scale. *See Concrete Pipe & Products of California, Inc.*, 508 U.S. at 625.

2. Federal Circuit Precedent On Administrative Deference Accords With This Court's Decision in *United States v. Mead*

The PTO is not accorded *Chevron* deference for its interpretations of the Patent Act or for its examination process. PTO interpretations of the Patent Act are owed deference by virtue of their persuasiveness or

thoroughness (*Skidmore* deference), but they are not owed *Chevron* deference. *Merck & Co., Inc. v. Kessler*, 80 F.3d 1543, 1550 (Fed. Cir. 1996). Second, *Chevron* deference for non-interpretative agency actions requires "formal adjudication" pursuant to the APA. *United States v. Mead Corp.*, 533 U.S. 218, 230 (2001); *Christensen v. Harris County*, 529 U.S. 576, 587 (2000) (rejecting *Chevron* deference because "we confront an interpretation in an opinion letter, not one arrived at after, for example, a formal adjudication or notice-and-comment rulemaking"). Since, almost all PTO proceedings certainly do not rise to the level of adjudications pursuant to the APA, *see* 5 U.S.C. § 554, *Chevron* deference for patents issued by the PTO is not required.

Instead, patent application examination is more akin to (though perhaps more structured than) the Customs letters in *Mead*. First, like the Customs letters, patents represent legal conclusions applied to particular devices (particular imports in *Mead*) and are not "intended to clarify the rights and obligations of [patentees or importers] beyond the specific case under review." *Mead Corp.*, 533 U.S. at 226. Second, similar to issued patents, the Customs decision letters in *Mead* were "presumed to be correct" under a statute when considered by the Court of International Trade (an article III court). *Id.* at 233 n.16. Third, the CIT, much like district courts embroiled in patent litigation, made its own record and determination of whether the Customs letters were correct. *Id.*

The level of consideration and deliberation that patent applications receive may be greater than that of the Customs letters, but this would lead to the result of greater *Skidmore* deference being accorded to patents

than Customs letters on average. Thus, while patents and Customs letters may differ as a matter of degree, they are qualitatively very similar. Issued patents, therefore, are analogous to Customs letters and well adapted for *Skidmore/Mead* deference.

Skidmore deference is essentially the same standard of deference that the Federal Circuit already employs for issued patents. Therefore, there is already well established doctrine that this Court may adopt if this Court adopts the proposed preponderance-plus-deference standards. Under *Mead* and *Skidmore*, courts should look to "the degree of the agency's care, its consistency, formality, . . . relative expertness, . . . to the persuasiveness of the agency's position," and its "thoroughness" to produce a "spectrum" of deference. *Mead Corp.*, 533 U.S. at 228. The basis for this deference is "the specialized experience and broader investigations and information available to the agency and . . . the value of uniformity in its administrative and judicial understandings of what a national law requires." *Id.* at 234 (internal citations and quotations omitted). As previously explained, the Federal Circuit similarly directs courts to consider the (i) persuasiveness and (ii) objects of the PTO's considerations in light of the PTO's administrative expertise and experience. Thus, the Federal Circuit's case law is consistent with *Mead* and represents the appropriate deference that should be given to the PTO.

C. The Proposed Standard Better Aligns Applicants' Incentives with the Interests of the PTO In a Manner That Is Impossible Within the Confines of Inequitable Conduct

The Federal Circuit requires a defendant to prove invalidity by clear and convincing evidence because the "Patent Office [is] presumed to do its job." *Am. Hoist & Derrick Co.*, 725 F.2d at 1359. However, the PTO should be presumed to do its job better when applicants (i) seek out and (ii) disclose material information regarding a patent's validity. Currently, the only incentive for applicants to disclose material information to the PTO is the doctrine of inequitable conduct. But, inequitable conduct is (i) insufficient and (ii) ineffective to accomplish this purpose.

First, inequitable conduct is insufficient because it only incentivizes disclosure of material information already within the hands of the applicant. The doctrine disincentivizes seeking out material prior art because of the risk of art, which applicants believe to be immaterial or cumulative, later being found to be material and noncumulative, rendering their patent entirely unenforceable.[8] Patent prosecution should be viewed by applicants as an inexpensive and good faith administrative avenue for testing the validity of their innovations. Giving *Skidmore* deference to PTO determinations will provide an incentive to applicants to seek an open and thorough examination to ensure that the PTO's conclusions are

8. A*mici* recognize and agree that applicants can possess more nefarious motivations, *see* Brief for Teva Pharmaceuticals USA, Inc. as *Amicus Curiae* Supporting Petitioner's Petition for Certiorari at 10-14, but the above argument shows that even perfectly honest risk-aversion can impede the PTO's examination.

persuasive. Moreover, a lower standard of proof coupled with some administrative deference will incentivize the applicant to both research and disclose prior art. A meticulous and honest patent examination can then be used as legitimate evidence of patent validity in any patent litigation.

Second, inequitable conduct is an ineffective deterrent because it is remarkably difficult for a defendant to plead and prove. "To successfully prove inequitable conduct, the accused infringer must present [clear and convincing] evidence that the applicant (1) made an affirmative misrepresentation of material fact, failed to disclose material information, or submitted false material information, and (2) intended to deceive the PTO." *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1365 (Fed. Cir. 2008) (internal quotations omitted). Moreover, even if a defendant meets this burden, a court may still enforce the patent if a balance of the equities shows that the applicant's conduct was not "egregious." *Id.* Furthermore, under Federal Circuit precedent, pleading inequitable conduct requires a defendant to identify the "specific who, what, when, where, and how" of the materiality element and to "allege sufficient underlying facts from which a court can reasonably infer [specific intent to deceive the PTO]." *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1327 (Fed. Cir. 2009).

Additionally, the Federal Circuit has created rigid rules governing the proof of inequitable conduct. For example, very recently, the Federal Circuit overturned a district court's factual finding of inequitable conduct following a four day bench trial. *See Cancer Research Tech. Ltd. v. Barr Laboratories, Inc.*, 625 F.3d 724 (Fed. Cir.

2010). The Federal Circuit justified this unusual step with an unusually rigid rule. The court found error because the district court had relied on the "same evidence" in finding the two elements of materiality and intent to deceive. *Id.* at 733-734. According to the majority in *Cancer Research*, the two elements cannot be proven by the "same evidence" – no matter how persuasive that evidence may be in establishing both elements. Such a rigid rule has no counterpart in American jurisprudence.

Finally, the Federal Circuit is currently considering *en banc* whether the materiality element should "require that but for the alleged misconduct, one or more claims would not have issued" and whether the overall standard should be "tied directly to fraud or unclean hands." *Therasense, Inc. v. Becton, Dickinson & Co.*, 374 F. App'x. 35, 35-36 (Fed. Cir. 2010), appeal reinstated (Apr. 26, 2010). Thus, decreasing a defendant's burden of proof and affording PTO deliberations *Skidmore* deference is much better tailored than the current inequitable conduct doctrine in aligning applicant incentives and producing better PTO work product.

III. SECTION 282 MUST BE INTERPRETED ONLY TO REQUIRE PROOF OF INVALIDITY TO A PREPONDERANCE OF THE EVIDENCE BECAUSE A CLEAR AND CONVINCING STANDARD WOULD RAISE SERIOUS CONSTITUTIONAL CONCERNS

A. A Clear and Convincing Standard Violates the Due Process Clause By Unfairly Infecting a Defendant's Adjudication With *Ex Parte* Determinations of the PTO

The patent invalidity defense and counterclaim are clearly established and important trial rights entitled to due process of law under the Fifth Amendment to the United States Constitution. Congress explicitly provides litigants an invalidity defense to any charge of patent infringement. *See* 35 U.S.C. § 282; *see also Mahn v. Harwood*, 112 U.S. 354, 358 (1884) ("there is no sound principle to prevent a party sued for [patent] infringement from availing himself of [invalidity] . . . This is constantly done in land cases where patents have been issued which the land officers had no authority to issue"). Moreover, patent invalidity can be the subject of an independent declaratory judgment action. *See* 28 U.S.C. § 2201; *Altvater v. Freeman*, 319 U.S. 359, 363-64 (1943). Defendants have a right to have their counterclaims of invalidity adjudicated even after being found to not infringe a patent at all. *See Cardinal Chem. Co. v. Morton Int'l, Inc.*, 508 U.S. 83, 100, 102 (1993) (emphasizing "the importance to the public at large of resolving questions of patent validity"). Thus, claims and defenses of invalidity are clearly entitled to due process of law.

In contrast, *ex parte* adjudication is a classic violation of Due Process. "[T]he fundamental requisite of due process of law is the opportunity to be heard." *Mullane v. Cent. Hanover Bank & Trust Co.*, 339 U.S. 306, 314 (1950) (internal citations and quotations omitted).

> "When a person has an opportunity to speak up in his own defense, and when the State must listen to what he has to say, substantively unfair and simply mistaken deprivations of property can be prevented. . . . [F]airness can rarely be obtained by secret, one sided determination of facts decisive of rights . . . And no better instrument has been devised for arriving at truth than to give a person in jeopardy of serious loss notice of the case against him and opportunity to meet it."

Fuentes v. Shevin, 407 U.S. 67, 81 (1972) (rejecting an *ex parte* prejudgment seizure scheme) (quoting *Joint Anti-Fascist Refugee Comm. v. McGrath*, 341 U.S. 123, 170-72 (1951) (Frankfurter, J. concurring)). Patent prosecution, with the exception of *inter partes* re-examination,[9] is conducted entirely *ex parte* between the applicant and the PTO. *Amici* do not claim that the *ex parte* examination of patent applications itself violates due process. The present claim is only that serious constitutional concerns are raised when a clear and convincing burden of proof at trial is justified solely by an *ex parte* action in which neither the defendant nor the public have an opportunity to participate.

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9. Instead of a presumption of validity, the Patent Act provides that *inter partes* re-examination receives *res judicata* effects. *See* 35 U.S.C. § 315(c).

This Court's opinion in *Concrete Pipe* is entirely on point for this issue. In that case, ERISA allowed trustees to determine an employer's "withdrawal liability" subject to review in arbitration. *Concrete Pipe & Products of California, Inc.*, 508 U.S. at 611. This Court held that the trustee's bias and interest in the assessment of the withdrawal liability would constitute a due process violation if the trustees served as "adjudicators." *Id.* at 618. However, this Court found that the trustees were not acting as adjudicators, but only in an enforcement or administrative capacity. *Id.* at 618-619. Likewise, if patent examiners in this case were "adjudicators" of defendant's claims of patent invalidity then *ex parte* examination would clearly constitute a deprivation of due process. But, patent examiners obviously should not be thought of as adjudicators of unknown parties' possible defenses and claims. Instead, they act in an enforcement capacity by enforcing the Patent Act only against applicants.

However, after the trustees in *Concrete Pipe* determined an employer's withdrawal liability, the employer could bring the issue to arbitration. *Id.* at 615. During arbitration, the trustee's determination is "presumed correct" unless the employer "shows by a preponderance of the evidence that the determination was unreasonable or clearly erroneous." *Id.* Thus, this Court in *Concrete Pipe* was forced to consider whether these "statutory presumptions preserve the trustees' bias by limiting the arbitrator's autonomy to determine withdrawal liability, and thereby work to deny the employer a fair adjudication." *Id.* at 620.

Likewise, in this case, this Court should consider whether the Federal Circuit's interpretation of § 282

introduces an element of *ex parte* adjudication into the later litigation. Here, the analogy to *Concrete Pipe* is that *ex parte* examination introduces a *substitute* type of due process concern into the later adjudication just as the impartiality concern in *Concrete Pipe*. Due process of law can be withheld in multiple ways, and here, the *ex parte* nature of the PTO's determination is what constitutes a due process violation in conjunction with the Federal Circuit's requirement of clear and convincing evidence.

Under the Federal Circuit's interpretation of the statute and in light of the statute's connection to an *ex parte* proceeding, there are serious constitutional concerns. In *Concrete Pipe*, this Court needed to choose between a preponderance of the evidence standard or an "unreasonable or clearly erroneous" standard. *Id.* at 626. It held that generally the "*locus* of the burden of persuasion is normally not an issue of federal constitutional moment." *Id.* (emphasis added). However, the weight of that burden would raise constitutional concerns if "the arbitrator . . . would be required to accept the [trustee's] findings, even if they were *probably* incorrect, absent a showing sufficient to instill a definite or firm conviction that a mistake had been made." *Id.* (emphasis added). The unreasonableness or clearly erroneous standard therefore destroyed too much of the arbitrator's autonomy.

Similarly, here, the Federal Circuit's clear and convincing evidence standard requires a district court to accept the PTO's *ex parte* determinations even if they have been proven *probably* incorrect. The judge or jury in a district court therefore has their autonomy too far restricted under a clear and convincing standard.

Under the Federal Circuit's interpretation of § 282, the *ex parte* nature of patent examination is impermissibly allowed to infect the litigation to an extent that is too great under due process. Therefore, there are serious constitutional doubts regarding the Federal Circuit's interpretation of § 282. Thus, as in *Concrete Pipe*, this Court must construe 35 U.S.C. § 282 "as to avoid serious doubt of [its] constitutionality." *Id.* at 629.

B. A Clear and Convincing Standard Violates the Due Process Clause By Unfairly Infecting a Defendant's Adjudication With Potentially Impartial Determinations of the PTO

Even if this Court rejects the analogy between *ex parte* proceedings in patent examination and impartiality in *Concrete Pipe*, a far greater concern is that patent examiners have a "direct, personal, substantial pecuniary interest" in issuing patents as opposed to rejecting them. *See Tumey v. State of Ohio*, 273 U.S. 510, 523 (1927). The number of "counts" that a patent examiner earns in a year is reflected in his or her promotions (salaries), bonuses, and performance reviews. *See* United States Government Accountability Office Report GAO-07-1102, *U.S. Patent and Trademark Office: Hiring Efforts Are Not Sufficient to Reduce the Patent Application Backlog*, at 7-9 (September 2007) (available at http://www.gao.gov/new.items/d071102.pdf). Indeed, a certain type of examiner bonus, the Production Award Program, is based directly and entirely on the percentage of counts an examiner earns above the PTO quota. *See* USPTO Joint Labor and Management Count System Task Force, U.S. Dep't of Commerce, *Overview of Count System Initiatives and Changes*, at 17 (March 8, 2010) (available at http://www.

uspto.gov/patents/init_events/Count_System_changes-Overview_3-8-2010.ppt) (hereinafter "*Count Overview*") (giving examiners that exceed their count quota by 35% a 7% bonus).

The manner in which counts are allocated, however, favors issuing patents, and thereby greatly risks giving examiners a direct, personal, substantial pecuniary interest in issuing patents, regardless of validity. The PTO recently amended its count system, in part, to "reduce examiner reluctance to allow applications." *Count Overview*, at 3. First, one change that the PTO implemented to achieve these ends was to frontload the amount of counts available to the examiner to the beginning of the examination process. The number of counts an examiner receives decreases as the applicant continues to argue his case. *See Count Overview*, at 7 (showing that with each request for continued examination, an examiner receives 0.25 less counts for a first office action). Thus, from the perspective of maximizing counts, an examiner's time is better spent reviewing fresh applications and simply issuing older ones, where work time is less valuable to him or her.

Second, the PTO's changes limited an examiner's performance review exposure for validity errors. *See Count Overview*, at 15. Thus, the examiner faces little risk of reprimand for issuing an invalid patent while reaping the count reward of a speedy patent issuance. Third, examiners directly profit from allowing applications because they earn counts when applications are disposed of. *See Count Overview*, at 7 (giving 1 count under the old system and 0.5 counts under the new system for allowance, abandonment, or any other disposal). Since allowance is

the only means entirely under the examiner's control for a disposal, allowance of patent applications is linked with monetary bonuses and promotion. Thus, in the PTO's effort to reduce its backlog, examiners have been given a personal, substantial, and direct pecuniary interest in issuing patents and forcing defendants to surmount the Federal Circuit's clear and convincing evidence standard.[10]

As in *Concrete Pipe*, the risk of an examiner's bias and interest is directly on point with this Court's landmark decision in *Tumey*, 273 U.S. 510 (1927). *See Concrete Pipe & Products of California, Inc.*, 508 U.S. at 617. In *Tumey*, the mayor of the town adjudicated violations of the Prohibition Act, and, in the relevant year, he received $696.35 out of the fines that he imposed. *Tumey*, 273 U.S. at 514, 522. This Court found a due process violation in subjecting Tumey to "the judgment of a court the judge of which has a direct, personal, and substantial interest in reaching a conclusion against him in his case." *Id.* at 523. Indeed, *every* "procedure which would offer a possible temptation to the average man as a judge to forget the burden of proof required . . . or which might lead him not to hold the balance nice, clear, and true . . . denies . . . due process of law." *Id.* at 532; *see also Marshall v. Jerrico, Inc.*, 446 U.S. 238, 242 (1980) (holding that *Tumey* applies in the civil context). Examiners earn their salaries, bonuses, and promotions in part on the basis of how many patents they issue and how quickly they do

10. Even sixty years ago, Justice Douglas observed that "[t]he Patent Office, like most administrative agencies, has looked with favor on the opportunity which the exercise of discretion affords to expand its own jurisdiction. And so it has placed a host of gadgets under the armour of patents – gadgets that obviously have no place in the constitutional scheme of advancing scientific knowledge." *Great Atl. & Pac. Tea Co.*, 340 U.S. at 156 (Douglas, J. concurring).

so. An average examiner would clearly suffer under the "possible temptation" to forget his duty to stand between patent applicants and the public and prevent the issuance of invalid patents.

Nonetheless, under the Federal Circuit's rule, a court is required to accept the examiner's determination even where it was proven "probably" incorrect on the merits. Thus, to avoid serious constitutional concerns, this Court should construe § 282 to require proof of invalidity only to a preponderance of the evidence standard.

CONCLUSION

For the foregoing reasons, this Court should reverse the decision of the Court of Appeals for the Federal Circuit.

Respectfully Submitted,

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